

Message Text

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 08282 181719Z

51

ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20 SWF-02

DRC-01 /186 W

----- 059455

R 171321Z SEP 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 4835

INFO AMCONSUL CALI

AMCONSUL MEDELLIN

LIMITED OFFICIAL USE BOGOTA 8282

EO 11652: NA

TAGS: EFIN CO

SUBJ: PRESIDENT LOPEZ REVIEWS ECONOMIC PROBLEMS

1. SUMMARY. PRESIDENT LOPEZ IN LENGTHY ADDRESS AT INSTALLATION OF TRIPARTITE COMMISSION SEPT 14 ANALYZED ILLS OF COLOMBIAN ECONOMY AND AGAIN REVIEWED REMEDIAL ACTION HE PROPOSES TO TAKE. LOPEZ ANSWERED GROWING CONGRESSIONAL RESTLESSNESS OVER DELAYS IN PRESENTING NEW PROGRAMS BY NOTING THAT REFORM MUST BE CAREFULLY PHASED TO PREVENT DISEQUILIBRIUM, THAT PRICE ADJUSTMENTS AND REDUCTION OF SUBSIDIES MUST BE ACCOMPANIED BY NEW TAX MEASURES. MOST OF THE PROBLEM AREAS IN THE ECONOMY WHICH HE ANALYZED WERE RECAPITULATIONS OF POINTS MADE PREVIOUSLY DURING THE CAMPAIGN OR IN HIS INAUGURAL ADDRESS. LOPEZ STRESSED ROLE OF DEFICIT FINANCING IN ADDING TO INFLATION AND PROMISED TO LIMIT PRIMARY EMISSION, REDUCE SPENDING AND ELIMINATE APPROPRIATIONS BASED ON A FICTICIOUS FISCAL SURPLUS. HE REVIEWED DRAINS FROM SUBSIDIES SUCH AS EXPORT TAX CERTIFICATES (CAT'S) AND WHEAT IMPORTS, CRITICIZED INEFFICIENCY IN SOME DECENTRALIZED AGENCIES,

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 08282 181719Z

AND PROMISED AN EXTENSIVE TAX REFORM PACKAGE WHICH WILL BENEFIT

LOWER INCOME GROUPS AND INCREASE LIABILITY OF LARGE CAPITAL. THE ONLY MAJOR NEW ANNOUNCEMENT WAS THAT MINIMUM WAGES WOULD BE INCREASED 20 PERCENT FOR URBAN WORKERS AND 16 PERCENT FOR RURAL WORKERS EFFECTIVE JAN 1, 1975. WHILE LOPEZ' ANALYSIS OF ECONOMIC PROBLEMS WAS PRESENTED WITH REMARKABLE CLARITY HE PAINTED SITUATION AS VERY BLEAK, PRESUMABLY TO INCREASE PALATABILITY OF NEEDED REFORMS. WHILE MAINTAINING THAT TRIPARTITE COMMISSION IS NOT TO BE RUBBER-STAMP FOR GOVERNMENT INITIATIVES HE GAVE NO CLEAR INDICATION OF WHAT ITS FUNCTION WILL BE AND IN FACT LEFT STRONG IMPRESSION THAT COMMISSION IS EXPECTED TO RECOMMEND ACTIONS ALONG LINES OF ANNOUNCED ADMINISTRATION POLICY. END SUMMARY.

2. LOPEZ BEGAN HIS TWO-HOUR ADDRESS BY NOTING RESTLESSNESS GENERALLY PREVALENT IN LIBERAL PARTY CIRCLES, AND RECENTLY VOCALIZED BY CONGRESS, RE DELAY IN CONVENING TRIPARTITE COMMISSION AND IN SUBMITTING NEW PROGRAMS, PARTICULARLY BUDGET REVISION AND TAX REFORMS. HE MAINTAINED THAT COMMISSION HAD BEEN DELAYED BY NEED TO INCORPORATE CSTC (COMMUNIST) LABOR UNION RECENTLY LEGALIZED BY GOC AND THAT FISCAL MEASURES REQUIRED TIME TO ANALYZE DATA AND DEVELOP COMPLETE PACKAGE OF MEASURES. HE REFERRED ON SEVERAL OCCASIONS TO NEED TO KEEP REFORM MEASURES "IN PHASE" BUT APPARENTLY RECOGNIZES THAT FALSE EXPECTATIONS HAD BEEN CREATED RE RAPIDITY WITH WHICH NEW PROGRAMS WILL BE PRESENTED.

3. NOTHING THAT HE PROPOSED TO DISCUSS THE COLOMBIAN ECONOMIC SITUATION IN TERMS OF STARK REALITY, LOPEZ PROCEEDED TO PAINT BLEAK PICTURE OF FISCAL AND MONETARY SITUATION. HE AGAIN REVIEWED IN DETAIL THE HIGH RATE OF INFLATION AND IMPLICITLY PLACED ALMOST TOTAL BLAME ON DEFICIT FINANCING BY THE PREVIOUS ADMINISTRATION. HE PARTICULARLY NOTED THE TENDENCY OF GOVT AT ALL LEVELS TO UNDERTAKE COMMITMENTS WITHOUT AVAILABILITY OF RESOURCES. HE THEN INDICATED THAT WHILE THE GOVT WOULD REFRAIN FROM PRIMARY EMISSION WHEREVER POSSIBLE AND DRASTICALLY CUT EXPENDITURES, SOME OBLIGATIONS CANNOT BE IGNORED AND THE ANSWER LIES IN HIGHER TAXES ON LARGE CAPITAL AND IN MORE EFFICIENT COLLECTION. IN ADDITION TO REITERATING NEED FOR RATE CHANGES, PRESUMPTIVE INCOME PROVISIONS, REDUCTIONS OF TAX EXEMPT SECURITIES, LOPEZ APPEARED TO BE SUGGESTING SALES TAX REFORM WITH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 08282 181719Z

REDUCTIONS FOR PRIMARY NECESSITIES AND HEAVIER RATES ON LUXURY CONSUMPTION. HE ALSO PROMISED REVISION OF "DISNEYLAND" ACCOUNTING WHICH PERMITS APPROPRIATIONS ON BASIS OF TAX ASSESSMENTS RATHER THAN ACTUAL COLLECTIONS. LOPEZ' EXPOSITION ON FISCAL SITUATION WAS PROBABLY MOST STRAIGHT FORWARD THAT HAS BEEN PUBLICLY MADE IN PAST SEVERAL YEARS AND LARGELY AVOIDED USUAL NUMBERS GAME. AT SAME TIME, ONE MIGHT IMAGINE FROM HIS COMMENTS THAT GOVT IS ON BRINK OF BANKRUPTCY. SEVERE FISCAL PROBLEMS DO EXIST, BUT THE

PICTURE IS HARDLY AS BLEAK AS PAINTED.

4. IN CONTEXT OF FISCAL PROBLEM, LOPEZ REVIEWED DRAIN OCCASIONED BY EXPORT TAX CREDITS (CAT) AND BY ARTIFICIAL WHEAT PRICES. HE NOTED THAT CAT HAS BEEN UTILIZED FOR FICTICIOUS EXPORTS, IS NO LONGER NEEDED IN MANY CASES, AND SUBJECT TO ECONOMIC RETALIATION (READ COUNTERVAILING DUTY) IN OTHERS. THIS WAS CLEAREST PUBLIC INDICATION YET OFFERED THAT CAT SYSTEM WILL BE SUBSTANTIALLY REDUCED. ALSO IMPLICIT WAS INDICATION DOMESTIC WHEAT PRICES WILL BE INCREASED TO REDUCE HEAVY SUBSIDY. (FOLLOWING SPECIAL CABINET MEETING ON SEPT 15, WHEAT SUBSIDY WAS IN FACT ABOLISHED; DETAILS BEING REPORTED SEPARATELY, BUT INITIAL EVALUATION IS THAT THIS CLEARLY CONTRADICTS GOAL OF PHASING REFORM SO AS TO REDUCE BURDEN ON WORKING CLASS.) WHILE CRITICIZING EFFICIENCY OF SEVERAL DECENTRALIZED AGENCIES AND ARTIFICIAL PRICE SYSTEMS, LOPEZ SUGGESTED THAT NUMERGFIS ITEMS MUST RECEIVE PRICE INCREASES IN ORDER TO STIMULATE PRODUCTION AND REDUCE DISTRIBUTION DISTORTIONS. HOWEVER, HE MAINTAINED THAT SUCH STEPS MUST AWAIT TAX REFORM AND OTHER MEASURES, PRESUMABLY INCLUDING MINIMUM WAGE INCREASE, IN ORDER NOT TO PLACE BURDEN ON LOWER-INCOME GROUPS. HE ALSO TOUCHED BRIEFLY ON PETROLEUM AND BUS SUBSIDIES, BUT OFFERED

NO SOLUTION TO FORMER AND DEFENDED NEED FOR LATTER.

5. LOPEZ CITED UNEMPLOYMENT STATISTICS WHICH APPEAR TO CONTRADICT CONTENTIONS OF PREVIOUS ADMINISTRATION RE INCREASES IN EMPLOYMENT GENERATED BY ITS DEVELOPMENT PROGRAMS. HE THEN NOTED THAT A GREAT PORTION OF ACTUAL INCREASE IN UNEMPLOYMENT (ALL DATA IN THIS AREA MUST BE VIEWED AS TENTATIVE AT BEST) RESULTED FROM MIGRATION TO LARGE CITIES. IN ANNOUNCING MINIMUM WAGE INCREASE OF 20 PC FOR URBAN WORKERS AND 16 PC FOR RURAL WORKERS, TO BE EFFECTIVE JAN 1, 1975, LOPEZ EMPHASEZED THE NEED TO INSURE OBSERVATION OF MINIMUM WAGE AND THUS HELP LIMIT MIGRATION SINCE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BOGOTA 08282 181719Z

LOWER THAN MINIMUM WAGES ARE PARTICULARLY PROBLEM FOR FARM WORKERS.

6. IN CLOSING LOPEZ REQUESTED THE RECOMMENDATIONS OF THE COMMISSION AS SOON AS POSSIBLE. HOWEVER, HE PHRASED THE OPTIONS AS SUPPORTING THE ADMINISTRATION'S "SOUND MONEY" POLICY OR RESORTING TO INFLATIONARY BORROWING (DEVELOPMENT AGENCY LOANS EXCLUDED BECAUSE OF FAVORABLE TERMS). THE SPEECH SHED ALMOST NO NEW LIGHT ON SPECIFIC PROGRAMS OF NEW ADMINISTRATION AND CERTAINLY DID LITTLE TO CLARIFY ROLE OF COMMISSION, EXCEPT PERHAPS IN NEGATIVE SENSE, AND THE NATURE OF THE HIGHLY PUBLICIZED WAGES AND INCOME POLICY. FURTHERMORE, LOPEZ' IMPLICATION THAT SOME TIME MAY BE REQUIRED TO GET NEW PROGRAMS BEFORE THE CONGRESS AND THE PUBLIC RAISES AN INTERESTING QUESTION AS TO WHETHER OR NOT THE MOOD FOR ACCEPTANCE WILL STILL BE SO FAVORABLE IF THE MEASURES ARE SLOW IN APPEARING.

VAKY

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 17 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BOGOTA08282
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740261-0957
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740940/aaaabhsr.tel
Line Count: 170
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 11 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 SEP 2002 by boyleja>; APPROVED <03 MAR 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENT LOPEZ REVIEWS ECONOMIC PROBLEMS
TAGS: EFIN, CO, (LOPEZ MICHELSEN, ALFONSO)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005